ANNUAL REPORT

for the year
ending Dec. 26, 1987

Nova Scotia Dairy Commission

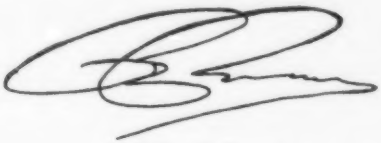
His Honour
The Honourable Alan R. Abraham, C.D.
Lieutenant-Governor of the Province of Nova Scotia
Government House
Halifax, Nova Scotia

Dear Sir:

I have the honour to transmit herewith the Annual Report of the Nova Scotia Dairy Commission for the year 1987.

I am, Your Honour,

Yours very truly,



Roger S. Bacon

The Honourable Roger Bacon
Minister of Agriculture and Marketing
P.O. Box 190
Halifax, Nova Scotia
B3J 2M4

Sir:

We have the honour to submit herewith the fourth Annual Report of the Nova Scotia Dairy Commission for the fiscal year ending December 26th, 1987 pursuant to the provisions of Section 187 of the Agriculture and Marketing Act.

Respectfully submitted,

Walter V. Grant
Chairman

R.L. Mason
Manager

Commission Members
W.V. Grant—Chairman
D.L. Harlow—Member
R.S. Johnstone—Member
J.M. Killawee—Member
J.M. MacConnell—Member

Staff
R.L. Mason—Manager
P.M. Green—Accountant
T.G. Johnson—Accounting Clerk
E.L. Faulkner—Secretary

Introduction

The Nova Scotia Dairy Commission was formed on June 1, 1967 to administer Part XVIII of the Agriculture and Marketing Act. Creation of a Dairy Commission was recommended by a four-member Nova Scotia Milk Industry Inquiry Committee, under the Chairmanship of R. Lorne MacDougall. The Committee was appointed by the government in May 1966 to study and make recommendations on all aspects of production, marketing, transportation, processing and distribution of milk and manufactured milk products.

The Commission succeeded the Board of Commissioners of Public Utilities which had exercised a much narrower range of control since 1944. Prior to that a Dairy Arbitration Commission established in 1939, exercised limited control over milk prices and marketing conditions in some areas of the province. During the period 1957 to 1967, milk pricing on Cape Breton Island, the counties of Antigonish and Guysborough, was under the authority of the Cape Breton Milk Marketing Board. The Board was set up under provisions of the Natural Products Marketing Act.

The Nova Scotia Dairy Commission is composed of five members appointed by the Governor-in-Council to serve on a part time basis for five years. The initial appointments however, were arranged so the term of one member would expire each year. One member is appointed from nominees of the Nova Scotia Milk Producers Association and the Cream and Industrial Milk Producers Association of Nova Scotia. One member is appointed from nominees of the province's milk processors, and three members are in no way actively associated with the dairy industry.

Mr. R. Lorne MacDougall, Q.C. who served as Chairman of the Commission since its formation retired from this position at the end of May, 1987. Many tributes were paid to Mr. MacDougall for the leadership he provided to the Nova Scotia Dairy Industry and for his involvement at the national level.

Mr. Walter V. Grant who retired as Deputy Minister of the Nova Scotia Department of Agriculture and Marketing in 1986—after 36 years with the department—was appointed the new Chairman of the Commission in June.

Objectives

The overall objective of the Commission is to provide efficient producers of milk and cream with a fair price for their product. At the same time the Commission ensures consumers have an adequate supply of quality dairy products at reasonable prices.

Activities of the Commission during the past year centred on the following:

- setting milk prices
- licensing milk producers, processors, jobbers, and bulk-milk transporters
- conducting plant audits
- compiling industry statistics
- providing regulations to ensure milk quality
- administering the Market Sharing Quota Program
- providing a fluid quota system
- administering a price equalization system
- setting bulk haulage rates
- mediating disputes within the industry
- providing regulations governing milk production, transportation, and processing.

In addition to close consultation with interested parties in the dairy industry of Nova Scotia, the Commission maintains contact with producers at the national level through Dairy Farmers of Canada, and with processors through the Atlantic Dairy Council. The Commission is also a member of the International Association of Milk Control Agencies.

Milk Classifications

Milk producers are paid according to the end use by the processors in Nova Scotia. Milk and cream consumed in liquid form is classified as fluid milk. Milk manufactured into products such as ice cream, yogurt, cottage cheese, cheddar cheese, butter, and skim milk powder, is identified as industrial milk.

Milk producers who receive payment for a portion of their milk at fluid and industrial classification prices are referred to as fluid milk producers. They hold fluid quotas. Producers whose milk shipments are paid solely in the industrial milk classification are identified as industrial milk producers.

The number of industrial milk producers in the province had declined to zero in 1985 before rising to fifteen in 1986. During 1987 a total of 22 producers were licensed as industrial producers. Most industrial milk producers are in a transitional stage before they acquire fluid quotas and become fluid milk producers.

Table I
TOTAL MILK SHIPMENTS TO PROCESSORS IN LITRES

	Fluid Milk Producers	Industrial Milk Producers	Total	Licensed Farms
1987	172,588,160	1,997,862	174,586,022	601
1986	175,015,215	464,149	175,479,364	603
1985	168,227,955	71,610	168,299,565	609
1984	171,813,782	305,455	172,119,237	615
1983	164,330,487	410,111	164,740,598	630
1982	170,674,231	441,310	171,115,541	645
1981	169,649,931	535,515	170,185,446	656
1980	167,355,149	1,172,251	168,527,400	675

The yearly volume of milk shipments by producers is influenced by both fluid milk quotas and market sharing quotas (MSQ). Fluid milk quotas are based on the requirements for milk by Nova Scotia processors while market sharing quotas represent the provincial share of the Canadian market for industrial milk products.

Cream Production

Producers who separate milk on the farm and send the cream to a creamery, are known as cream producers. They hold a share of the provincial entitlement of MSQ. Their numbers are decreasing primarily due to conversions to fluid or industrial milk production.

Three creameries owned by Scotsburn Co-op Services Limited receive cream in the province. Prices paid for cream during the year were unchanged since August 1985 at $2.39 per pound for Special Grade and $2.33 per pound for First Grade.

Table II
CREAM SHIPMENTS TO NOVA SCOTIA PROCESSORS

		Residency of Producers as of August		
Year	**Butterfat (kg)**	**N.S.**	**N.B.**	**Total**
1987	212,263	131	9	140
1986	225,164	171	12	183
1985	219,247	181	14	195
1984	223,421	188	14	202
1983	224,934	202	15	217
1982	236,823	243	14	257

Milk Utilization

Fluid milk sales in Nova Scotia increased marginally in 1987. This reflected a continuing consumer preference for skim and partly skimmed milk over standard milk. Chocolate milk sales were strong as were all cream sales.

Fluid milk sales to Newfoundland declined by 25.9 percent from the previous year. Although the per capita consumption is increasing rapidly the number of farms producing milk in Newfoundland is also increasing.

On a combined basis total fluid milk utilization dropped by 1.15 percent to 114,681,346 litres from 116,012,345 litres the previous year. Fluid utilization represented 65.7 percent of the total milk shipped to processors in 1987.

The remaining milk production was used in the manufacture of other dairy products including: ice cream and mixes, cottage cheese, yogurt, cheddar, gouda and feta cheese, skim milk powder, butter, whey powder and condensed whey.

Table III
PRODUCT SALES WITHIN NOVA SCOTIA

	1987 (Litres)	1986 (Litres)	Increase/ Decrease (%)
Standard Milk	40,436,406	42,629,230	− 5.1
Partly Skimmed Milk	51,420,746	49,442,074	+ 4.0
Skim Milk	7,829,927	7,248,914	+ 8.0
Buttermilk	262,113	265,182	− .2
Chocolate Milk	4,630,432	4,452,895	+ 4.0
Blend Cream	2,375,900	2,335,522	+ 1.7
Coffee Cream	847,243	677,065	+25.1
Whipping Cream	487,656	467,445	+ 4.3
Sour Cream	268,327	232,284	+15.5
Egg Nog	452,545	433,490	+ 4.4
Total	109,011,295	108,184,101	+ .8

Nova Scotia has consistently recorded the highest per capita consumption of fluid milk in Canada. High quality products priced fairly throughout the province along with an effective school milk program and promotional efforts by Milk Nova Scotia have all contributed to maintaining this leadership position.

Table IV
ANNUAL PER CAPITA CONSUMPTION BY PROVINCE
STANDARD, PARTLY SKIM, SKIM AND CHOCOLATE MILKS

Province	1986	1987
Newfoundland	45.44 Litres	47.69 Litres
Prince Edward Island	103.62	104.90
Nova Scotia	118.85	119.47
New Brunswick	98.82	99.66
Quebec	100.23	105.49
Ontario	106.80	109.88
Manitoba	100.62	102.46
Saskatchewan	96.31	97.61
Alberta	104.73	106.51
British Columbia	97.91	98.01
Average for Canada	102.00	104.89

Milk Pricing

The Commission sets the wholesale price at which processors may sell all sizes of containers for milk and cream. The wholesale price is also the minimum price at which milk can be sold at retail.

The Commission sets the prices paid to producers for milk used for Class I and Class II purposes while Farmers Co-op Dairy Ltd. sets the price for milk used for Class III purposes. Prices for milk used for other purposes are determined by the marketplace. Class I represents milk used for fluid sales within Nova Scotia. Class III represents milk used for skim milk powder, butter, cheddar cheese, whey powder and condensed whey. Milk used within Nova Scotia for other than Class I and III purposes is paid for at the Class II price.

After a comprehensive review of operating margins for both producers and processors the Commission determined there was no need to adjust milk prices in 1987. This was the first time since 1967 that both producer and processor prices did not change.

Table V
COMMISSION-FIXED WHOLESALE AND MINIMUM RETAIL PRICE —STANDARD MILK (3.25% BUTTERFAT)

	Nova Scotia Mainland	Cape Breton Island	Effective Date
4-litre pouch pack	$4.28	$4.32	December 28, 1986
2-litre carton	2.16	2.18	
4-litre pouch pack	4.08	4.12	December 29, 1985
2-litre carton	2.06	2.08	
4-litre pouch pack	3.92	3.96	May 26, 1985
2-litre carton	1.98	2.00	
4-litre pouch pack	3.76	3.80	August 26, 1984
2-litre carton	1.90	1.92	

Table VI
BASIC PRODUCER PRICES PER HECTOLITRE OF MILK*

	Nova Scotia Mainland	Cape Breton Island	Effective Date
Class I	$57.70	$58.67	December 28, 1986
	55.41	56.38	December 29, 1985
	53.66	54.63	May 26, 1985
	51.41	52.38	August 26, 1984
Class II	41.03	41.03	August 10, 1986
	40.23	40.23	August 25, 1985
	39.20	39.20	August 26, 1984
	38.38	38.38	April 16, 1984
	37.73	37.73	January 16, 1984
Class III(a)	39.84	39.84	March 29, 1987
(b)	38.04	38.04	
(a)	38.84	38.84	August 1, 1986
(b)	37.34	37.34	
(a)	38.04	38.04	August 16, 1985
(b)	36.54	36.54	
(a)	37.01	37.01	August 1, 1984
(b)	35.51	35.51	
(a)	36.19	36.19	April 1, 1984
(b)	34.69	34.69	
(a)	35.54	35.54	January 1, 1984
(b)	34.04	34.04	

*Basis 3.6 kilograms of butterfat per hectolitre

In setting the Class II milk price the Commission closely follows the federal support prices for skim milk powder and butter. Through support prices and direct payments to producers, the federal government, (through the Canadian Dairy Commission) establishes a target return level for milk producers.

In addition to the most recent target return level of $46.30 an amount of 18 cents was added to cover the butter marketing costs which the federal government ceased to finance in April 1986. During 1987 the pricing mechanism for industrial milk was under review and no changes were made to support prices.

Table VII
FEDERAL DAIRY PRODUCT SUPPORT PRICES

Skim Milk Powder	Butter	Target Return Level	Effective Date
$2.978/kg	$5.035/kg	$46.30/hl	August 1, 1986
2.922	4.929	45.68	August 16, 1985
2.85	4.784	44.65	August 1, 1984
2.79	4.71	43.83	April 1, 1984
2.74	4.60	43.18	January 1, 1984

Price Equalization

The responsibility of the Commission to operate a producer price equalization system began in April 1985. All producers receive the same percentage of their fluid quota at a blend price of all fluid utilizations, and a blend price for all other uses. Under the terms of the price equalization system the blend fluid value paid to producers living on Cape Breton Island and Yarmouth County is higher—based on the value of milk sold on Cape Breton Island.

Because combined fluid sales declined during the past year it was agreed that the total amount of issued quota in the province should not be revised at the time of annual revision in August 1987. Only minor adjustments occurred based on the lowest average daily receipts of milk at each plant.

An agreement was reached with the Board of Directors of the Nova Scotia Milk Producers Association to begin sales of fluid quota and MSQ on Quota Exchanges at the start of the August pay period. A new method of allocating increases in fluid quotas based on provincial quota months was also approved.

A Quota Exchange is a monthly system of selling quota among producers. Those wishing to sell submit offers at a price and conversely those wanting to purchase submit offers to buy at a price. The Commission matches the volumes and prices of all offers to determine the single price—known as a market clearing price—at which most quota would sell. Those producers wanting to sell at a higher price would be unsuccessful and those wanting to purchase at a lower price would also be unsuccessful.

After operating for five months a court determined the Commission lacked authority under the Act to operate the fluid quota exchange. The Commission revoked the regulations pertaining to the fluid quota exchange and suspended the exchange for MSQ pending a further review and consultation with producers.

Table VIII
SUMMARY OF PRICE EQUALIZATION VALUES

Month	Payout % of Fluid Quota	Fluid Value Cape Breton Island & Yarmouth County*	Fluid Value Other Areas*	Non Fluid Blend Value*
January	82.18	$57.99	$57.15	$38.60
February	84.70	57.94	57.10	39.07
March	84.36	57.85	57.03	39.06
April	81.31	58.03	57.18	39.45
May	80.44	58.11	57.27	39.43
June	78.68	58.20	57.35	39.15
July	75.28	58.51	57.63	39.29
August	78.81	58.13	57.30	39.71
September	82.22	58.06	57.21	39.87
October	85.35	57.86	57.01	40.10
November	85.10	57.94	57.10	39.99
December	84.77	57.99	57.15	39.71

*Price per hectolitre of milk, 3.6 kilograms of butterfat

The total value of milk purchased from fluid milk producers by processors was $89,393,163 in 1987 compared to $87,165,957 in 1986. The average rate per hectolitre increased by $2.00 or 4.02 percent.

TABLE IX
AVERAGE VALUE PER HECTOLITRE PAID TO FLUID MILK PRODUCERS

	1987	1986	1985
January	$51.34	$50.25	$47.07
February	51.82	50.66	47.17
March	51.94	50.31	47.60
April	51.51	50.06	47.45
May	51.56	49.15	47.48
June	50.85	48.18	48.12
July	50.72	48.09	48.38
August	51.59	48.86	48.42
September	52.01	49.36	49.12
October	52.72	50.73	49.90
November	53.11	51.73	50.86
December	52.48	50.84	49.93
Average for the year	51.80	49.80	48.44
Average butterfat test	3.69 kg	3.68 kg	3.71 kg

Bulk Milk Haulage Rates

The Commission revised maximum bulk haulage rates in 1987. This revision was based on the reporting format established by a study done in cooperation with Doane Raymond Management Consultants the previous year.

Rates were revised for transporting milk from farms to fluid plants as well as from various points within the province to the surplus plant in Truro.

TABLE X
SCHEDULE OF BULK HAULAGE RATES—FARM TO FLUID PLANTS

Transporter	Maximum Rate per Hectolitre	Effective Date
Rudy Burghardt	$1.37	June 28, 1987
	1.33	April 27, 1986
Cook's Dairy Farm Ltd.	1.19	April 27, 1986
Farmers Co-op Dairy Ltd.	1.94	May 24, 1987
	1.89	April 27, 1986
Curtis Fisher	1.49	April 27, 1986
Scotsburn Co-op Services Ltd.	2.02	May 24, 1987
	1.93	April 27, 1986

Market Sharing Quota Program

The National Market Sharing Quota Program is administered by the Canadian Milk Supply Management Committee. It is made up of producers and government representatives from all provinces except Newfoundland, (which does not produce any industrial milk), and is chaired by the Canadian Dairy Commission. The objective of the program is to provide a balance between the Canadian requirements for industrial milk and cream—which includes some exports—and the supply from producers.

A national quota (MSQ) is established each year and shared among all provinces according to agreement by the Canadian Milk Supply Management Committee (CMSMC). In September, a national study team with representatives from each province was appointed by the CMSMC. They will review concerns with the program; particularly as it relates to the provincial shares of quota. The team is to visit each province and prepare a report by the end of the 1987/88 dairy year.

In Nova Scotia the MSQ program is administered by the Dairy Commission. Policy is developed through discussions with the Nova Scotia Milk Producers Association and the Cream and Industrial Milk Producers Association. Recommendations are received from a seven-producer Advisory Committee headed by the Chairman of the Dairy Commission.

For the MSQ year ending July 1987, the nationally issued quota was virtually unchanged from the year before. Industrial milk and cream production in Canada was down slightly from last year. Nova Scotia utilization however, increased from 103.2 percent in 1985/86 to 110.2 percent in 1986/87.

Table XI
NATIONAL MARKET SHARING QUOTA ENTITLEMENT AND UTILIZATION
AUGUST 1986–JULY 1987
(Millions of Kilograms of Butterfat)

Province	Date of Entry	Authorized MSQ	Production	% Utilization
Nova Scotia	April 1, 1974	2.108	2.323	110.2
New Brunswick	April 1, 1974	2.202	2.237	101.6
Prince Edward Island	December 1, 1971	3.161	3.188	100.9
Quebec	December 1, 1970	79.962	80.169	100.3
Ontario	December 1, 1970	52.242	51.612	98.8
Manitoba	July 1, 1972	6.518	6.627	101.7
Saskatchewan	July 1, 1972	4.339	4.317	99.5
Alberta	April 1, 1972	11.191	11.591	103.6
British Columbia	October 1, 1973	6.178	6.401	103.6
Total		167.901	168.465	100.3

During the MSQ year total shipments by fluid and industrial milk producers increased while at the same time sales of fluid milk to Newfoundland were declining. The effect of this combination was a sharp increase in MSQ production causing a severe over quota situation. The decline in utilization by cream producers is accounted for by the conversions during the year to fluid or industrial milk production.

Producers who have shipped industrial milk or cream for at least five years are eligible to receive a free allotment of one hundred litres of fluid quota. A maximum of five producers per year are accepted for transfer under this arrangement known as the Graduated Entry Program.

Table XII
NOVA SCOTIA MSQ PRODUCTION
(Kilograms of Butterfat)

Producers	1986–87	1985–86	Change	%
Fluid	2,096,011	1,954,683	+141,328	7.2
Industrial	45,575	—	+ 45,575	
Cream	181,003	220,065	− 39,062	17.8
Total	2,322,589	2,174,748	+147,841	6.8

Dairy Farmers finance the cost of disposing any milk production not needed for domestic consumption through a system of levy rates. The rates are determined by the Canadian Milk Supply Management Committee and the application to producers is determined by each province.

The in-quota levy rate reflects the cost of the disposal of excess skim milk powder produced when meeting domestic requirements for butterfat as well as costs associated with a small traditional export market. Over quota levies are applied to cover costs of disposal of whole milk products. Levies collected during the year are subject to adjustment if financing costs are less than projected or if some over quota production is needed for Canadian requirements.

Milk and cream deliveries used for Canadian requirements are eligible for direct subsidy payments from the Canadian Dairy Commission at a rate of $1.675 per kilogram. Total payments to Nova Scotia producers increased from $3,483,514 in 1985–86 to $3,515,825 in the current year due to an increase in Canadian requirements.

Table XIII
SUMMARY OF LEVY AND SUBSIDY PAYMENTS 1986–87

Producers	In Quota Levy	Over Quota Levy	Total Levy	Subsidy Payments
Fluid	$3,101,159	$2,057,272	$5,158,431	$3,150,179
Industrial	65,618	7,159	72,777	74,524
Cream	—	29,352	29,352	291,122
Total	3,166,777	2,093,783	5,260,560	3,515,825

The national quota for the 1987–88 dairy year began at the same level as the year before but with reduced levy rates due to an improvement in the world market prices for dairy products. In December the Nova Scotia Dairy Commission increased the total MSQ allotments to producers by .76 percent as a result of a national increase in domestic consumption. At the same time levy rates for milk producers were further reduced to the following retroactive to the start of the dairy year.

Fluid Producers—	Production up to 100% of MSQ	$ 5.11 hl
	Production 100% to 102.7%	28.50 hl
	Production over 102.7%	37.04 hl
Industrial Producers—	Production up to 100% of MSQ	3.66 hl
	Production over 100%	37.04 hl
Cream Producers—	Production over 100% of MSQ	4.00 kg

A decision on a further increase in MSQ and reduction in levies was deferred to the January 1988 meeting of the Canadian Milk Supply Management Committee.